



Treasury Trends

Bringing currency to the Arizona Taxpayer

David A. Petersen, State Treasurer

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This month's
character trait ---

Virtue:

*The moral
excellence evident
in my life as I
consistently do
what is right.*

*Both LGIP Pools
continue to
increase their
yields in April
2005*

*LGIP Advisory
Board transforms*

LGIP Performance

The Board of Investment, in the regular meeting held on May 25, 2005, was informed of the performance of the LGIP and LGIP-Gov pools. Both pools continued to increase their yields over the previous month. Balances of the pools also remained relatively stable for the month.

Yields	LGIP	FYTD	WAM	LGIP-GOV	FYTD	WAM
Pool size →	\$3.0 B			\$1.3 B		
January '05	2.30	1.95	100.32	1.92	1.60	141.59
February '05	2.47	2.02	100.36	1.92	1.60	125.37
March '05	2.48	2.08	93.32	2.29	1.75	140.04
April '05	2.63	2.14	99.06	2.37	1.81	103.62
May '04	1.39	1.44	79.30	1.01	1.03	129.30
June '04	1.45	1.44	71.59	1.06	1.03	122.64
July '04	1.59	1.59	180.85	1.25	1.25	137.49
August '04	1.72	1.65	167.22	1.39	1.32	116.82
September '04	1.81	1.71	162.99	1.45	1.36	113.7
October '04	1.90	1.76	151.52	1.57	1.41	101.86
November '04	2.06	1.82	151.65	1.72	1.48	88.66
December '04	2.21	1.89	145.53	1.80	1.54	79.27

Fiscal Year is July 1 to June 30

LGIP Advisory Board Transforms

At the last meeting of the LGIP Advisory Board, the motion was unanimously carried to transform the quarterly advisory board meetings into Quarterly LGIP Participant Update meetings. Advisory Board members clearly stated their participation on the Advisory Board was primarily to obtain information about the Pools. It was also noted there are other participants who would likely be interested in receiving the same information but were reluctant to attend the Board meetings because of not being formal members of the Board. To increase the attendance at these informative gatherings, the members of the Board elected to transform the quarterly meetings from formal board meetings to an informal information meeting, open to all LGIP participants. It is hoped that more LGIP participants will take advantage of these gatherings to receive information and interact with each other and the ASTO staff.

It is the intention of the ASTO to hold these meetings quarterly in various locations throughout the state. If you would be interested in hosting LGIP participants at one of these meetings, give us a call.

What's up with the yield on 10 Year US Treasury being down?

If the 10 Year US Treasury Bond was a retiree at one of Arizona's many retirement communities, it would most likely be telling everyone "my yield has fallen and it can't get up." The question is why has it fallen even as other sectors of the yield curve have gained? Although there are probably more answers than lobbyists at the Capitol, the following two reasons may shed some light on this predicament for the Bond.

First, recent economic data from the US Labor Department, the National Association of Purchasing Management-Chicago (NAPM) and the Institute for Supply Management (ISM) indicate that the economy is not moving as fast as some may have hoped. A stagnant economy means that the threat of inflation has diminished. Consequently, in theory, at least, a dollar today will probably be worth a dollar tomorrow or further down the line. Given this dynamic, investors do not need a higher yield to adjust for the affects of inflation. Without the threat of inflation, the yield on the 10 Year US Treasury Bond has no reason to go up since investors are not demanding a discount to compensate for potential lower future values.

Second, there has been a recent flight to quality, especially among foreign investors. The US Treasury market has long been considered the safest in the world, at least for credit risk. Many investors, including foreign central banks, buy US Treasury securities as part of their portfolios. Recent global events have made some of those investors increase their position in US Treasury securities. For example, French and Dutch voters recently rejected the European Union's (EU) constitution putting some question as to the future of the EU economy. Investors may now be leery of investing long-term with the EU and may look to the US Treasury market as an alternative. Increase in demand for US Treasury securities means higher prices and in turn a lower yield. These portfolios have chosen a flight to quality, that is, the safety of US Treasury securities as their prominent strategy.

So what kind of trend can we expect next from the long end of the Treasury curve? Have we bottomed out or is there still room to go down further? Economists and market experts seem to be mystified by the flattening of the US Treasury yield curve (short end up, long end down). In fact, our very own Uncle Al (Greenspan) has recently used the word "conundrum" in describing the recent trends of the 10 Year US Treasury Bond. The only answer to this question right now is that the 10 Year US Treasury yield will begin going up after it is through going down.

***LGIP: local & state government working together
to safeguard Arizona taxpayers' money.***

Yield Curve Perspective

Treasury Yield Curve				
Term	31 May	1 Week Earlier	1 Month Earlier	1 Year Earlier
3 mo.	2.94	2.88	2.87	1.06
6 mo.	3.13	3.16	3.1	1.37
2 yr.	3.64	3.66	3.61	2.46
3 yr.	3.70	3.76	3.71	2.99
5 yr.	3.81	3.87	3.91	3.73
10 yr.	4.07	4.12	4.22	4.60
30 yr.	4.43	4.44	4.55	5.32

*Low inflation
expectations help
keep long-term
rates low*

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